

# **EXHIBIT B**

## **BOARD POLICY NO. ACT-95-05E AMORTIZATION METHODS**

STATE OF CALIFORNIA  
BOARD OF ADMINISTRATION  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. ACT-96-05E (Rev.)

Subject:     **Actuarial Policies - Amortization Methods**

- WHEREAS, 1.     On November 3, 1992, the people of the state of California passed Proposition 162, which amended Article XVI, section 17 of the California Constitution ("Section 17"), granting the CalPERS Board of Administration plenary authority and fiduciary responsibility for investment of moneys, providing for actuarial services, and administration of the Public Employees' Retirement System, the Judges' Retirement Systems, the Legislators' Retirement System, and the Volunteer Firefighters' Length of Service Award (collectively "the Systems").
- WHEREAS, 2.     Section 17 requires the CalPERS Board to exercise its responsibility with respect to the Systems, subject to continuing fiduciary duties and specifies that the duty to participants and their beneficiaries takes precedence over any other duty.
- WHEREAS, 3.     The provisions of Section 17 expressly supersede any contrary provision of law or the Constitution.
- WHEREAS, 4.     The Systems contain multiple plans, in which, except as expressly provided by law, the assets and liabilities of each CalPERS plan remain separate and distinct from the assets and liabilities of other CalPERS plans.
- WHEREAS, 5.     In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the CalPERS Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.
- WHEREAS, 6.     Also in furtherance of this sole and exclusive duty to make actuarial determinations, the CalPERS Board has retained the services of an outside consulting actuarial firm, to review the work of the Board's actuarial staff and to certify that such work satisfies professional actuarial standards.

WHEREAS, 7. Both the CalPERS Board's Chief Actuary and its consulting actuary have advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the Systems.

NOW THEREFORE BE IT RESOLVED:

- (A) It is the policy of the CalPERS Board to utilize professionally accepted amortization methods to provide for the elimination of unfunded liabilities or surpluses in a manner that maintains benefit security for the members of the Systems while minimizing substantial variations in employer contribution rates.
- (B) To accomplish this goal, the Board hereby adopts an amortization method which amortizes different pieces of the total unfunded liability or surplus over different periods of time, depending upon the type of event that created the particular piece of the unfunded liability or surplus, specifically as follows:
  - (1) For each plan, as of the June 30, 1996 actuarial valuation, the unfunded liability with respect to prior service shall be combined with the unfunded liability with respect to current service. The resulting combined unfunded liability shall be amortized as a level percentage of payroll over that number of full years which produces an initial payment which most closely approximates the payment on the unfunded liability that would have been produced had the Board's amortization methods prior to this Resolution remained unchanged.
  - (2) Commencing with the June 30, ~~2004~~1997 actuarial valuation, the annual contribution amount with regard to gains and losses shall be determined as the level percent of payroll required to amortize the accumulated amount of unamortized gains and losses as of the valuation date over a period of thirty years (i.e. rolling thirty year fresh start). ~~shall equal ten percent of the accumulated amount of unamortized gains and losses as of the valuation date.~~
  - (3) Commencing with the June 30, 1997 actuarial valuation, the annual contribution with regard to a change in unfunded liability due to a change in plan provisions, or a change in actuarial assumptions, or a change in actuarial methods, shall be determined as the level percent of payroll required to amortize that change in unfunded liability over a period of twenty years from the date of the actuarial valuation which first recognizes that change in unfunded liability.
  - (4) Any agency contracting with CalPERS for the first time shall have the initial unfunded liability amortized as a level percent of payroll over a period equal to the smaller of twenty years or the average future working lifetime of that agency's active members.

- (5) Commencing with the June 30, 1997 actuarial valuation, notwithstanding the foregoing (1) through (4) and except as provided in (6) below, the annual contribution with regard to the total unfunded liability as of any valuation date shall not be less than the amount necessary to amortize the total unfunded liability as a level percent of payroll over a period of thirty years from the date of that actuarial valuation.
- ~~(6) Recognizing that the current amortization period for all State plans exceeds twenty years, the policies provided in this Resolution will first apply to all State plans commencing with the actuarial valuation for which the remaining amortization period is twenty years.~~
- (6) ~~(7)~~ In certain cases, provide for a Fresh Start of the amortization bases. Under this policy, Fresh Start means combining all amortization bases into a single base equal to the unfunded liability/surplus.
- (a) A Fresh Start may be used whenever application of policies as set forth in paragraphs (B)(1) through (B)(3) results in mathematical inconsistencies or a violation of the goals as stated in paragraph (A), including, without limitation, the following circumstances:
- (1) a negative employer contribution rate; or
  - (2) a negative employer amortization payment on a positive unfunded liability; or
  - (3) a positive employer amortization payment on a negative unfunded liability (i.e. an actuarial surplus); or
  - (4) the effect of adding multiple amortization base payments results in a net amortization payment that completely amortizes the total unfunded liability/surplus in a very short time period, which results in a large change in the employer contribution rate; or
  - (5) whenever application of the methods set forth in paragraph (B), in the professional judgment of the Chief Actuary, does not accomplish the goals as stated in paragraph (A).
- (b) The amortization period of the Fresh Start base shall be determined by policies established by the Chief Actuary in a manner which best meets the goals stated in paragraph (A). The Chief Actuary will inform the Board of the policies so established, and the Board shall retain its right to instruct the Chief Actuary to change those policies.
- (7) ~~(8)~~ Commencing with the June 30, 2003 actuarial valuation, the annual contribution with regard to the side fund for agencies joining a risk pool for the first time shall be determined as the level percent of payroll required to amortize the side fund using a fresh start. The fresh start shall be done over a period that would produce an amortization payment as a percentage of payroll that would be as close as possible to the payment that all existing separate amortization bases would have generated had the plan not participate in a risk pool.

- ~~(8)~~ (9) Commencing with the June 30, 2003 actuarial valuation, the annual contribution with regard to a change in side fund due to a change in plan provisions for employers participating in a risk pool shall be determined by doing a Fresh Start of the adjusted side fund. The Fresh Start shall be done as a level percent of payroll over the period that would produce a required contribution as close as possible to amortizing the change in side fund in accordance with paragraphs (B)(3) and B(7).
- (C) Public agency employers for whom the policies provided in this Resolution produce severe financial hardship may petition the Chief Actuary, for an extension of the amortization period to no more than thirty years. Other employers for whom the policies provided in this Resolution produce severe financial hardship may petition the Board for an extension of the amortization period to no more than thirty years.
- (D) This Resolution shall be effective immediately upon adoption.

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I hereby certify that on the 20<sup>th</sup> day of October, 1999 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution; and that this Resolution was amended on the 20<sup>th</sup> day of April, 2005.

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ROB FECKNER, PRESIDENT  
BOARD OF ADMINISTRATION, PUBLIC  
EMPLOYEES' RETIREMENT SYSTEM